

REPORT ON THE ADJUSTMENTS TO THE BUDGET FOR THE FINANCIAL YEAR 2013/2014

REPORT OF THE ACTING CHIEF FINANCIAL OFFICER

PURPOSE

To submit to Council the Adjustment Budget for the financial year for consideration. See Annexure

BACKGROUND

Section 28(1) of the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003, provides for the revision of an approved annual budget through an adjustment budget.

In terms of Section 28(2) "adjustment budget-

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- (b) may appropriate additional revenues that have become available over and above those anticipated in annual budget, but only to revise or accelerate spending programmes already budgeted for;
- (c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- (d) may authorise the utilization of projected savings in one vote towards spending under another vote;
- (e) may authorise the spending of funds that were unspent at the end of past financial year where the spending could not reasonably have foreseen at the time to include projected roll-over when the annual for the current year was approved;
- (f) may correct any errors in the annual budget, and;
- (g) may provide for any other expenditure with a prescribed framework.

Furthermore section 29(1) and (2) prescribes for unforeseen and unavoidable expenditure as follows:

- 1) The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.
- 2) Any such expenditure-
 - (a) must be in accordance with any framework that may be prescribed;
 - (b) may not exceed a prescribed percentage of the approved annual budget;
 - (c) must be reported by the mayor to the municipal council at its next meeting; and
 - (d) must be appropriated in an adjustment budget.

Accordingly the report is prepared taking into consideration the sections above as well as the mid-year budget and performance assessment report that was tabled to Council in January 2014.

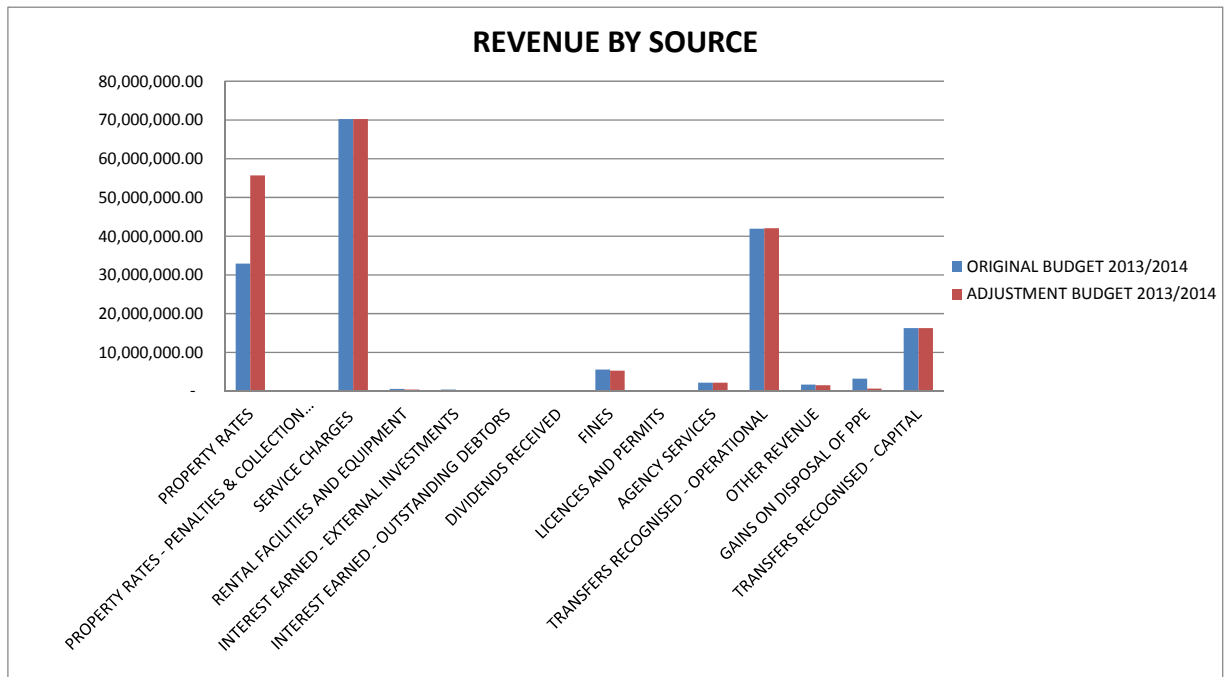
DISCUSSIONS ON BUDGET ADJUSTMENT

The reported budget variance performance in the mid-year budget and performance assessment report amounted to 57 % for revenue and 57 % for expenditure. Although this trend may seem satisfactory, whereby the expenditure does not exceed the revenue, it should be noted that expenditure from prior period (creditors) is not yet services which leads to be a burden for the municipality.

Emakhazeni is currently (financial year 2013 2014) repaying unspent grant money to the value which is currently a creditor to the value of R 10 178 000 and then still having creditors to the value of +- R 36,000,000. Therefore paying creditors it minimize the cash available for new expenditure (FY 2013 2014 budget expenditure) which then result in non achievement of the budget. Therefore the adjustment budget considerations were done in the aim to prioritize expenditure and ensure realisticness of revenue.

1. Revenue Adjustment per source:

DESCRIPTION	AUDIT OUTCOME 2010/2011	AUDIT OUTCOME 2011/2012	AUDIT OUTCOME 2012/2013	ORIGINAL BUDGET 2013/2014	ADJUSTMENT BUDGET 2013/2014	BUDGET FORECAST 2014/2015	BUDGET FORECAST 2015/2016
PROPERTY RATES	16,162,067.84	20,438,543.25	31,358,480.12	32,933,922.00	55,733,922.00	34,580,618.00	36,309,649.00
PROPERTY RATES - PENALTIES & CHARGES	-	-	-	-	-	-	-
SERVICE CHARGES	47,717,090.48	55,030,971.61	64,057,587.51	70,285,525.08	70,285,523.00	73,793,592.00	77,483,272.00
RENTAL FACILITIES AND EQUIPMENT	470,900.83	769,739.63	529,314.94	573,943.11	418,737.00	439,675.00	461,660.00
INTEREST EARNED - EXTERNAL INVESTMENTS	22,685.44	104,459.03	463,559.12	381,011.40	212,000.00	222,600.00	233,730.00
INTEREST EARNED - OUTSTANDING DEBTORS	-	-	-	-	-	-	-
DIVIDENDS RECEIVED	-	-	-	-	-	-	-
FINES	3,651,401.00	5,142,058.26	5,483,025.88	5,601,053.50	5,301,156.00	5,566,213.00	5,844,523.00
LICENCES AND PERMITS	33,957.10	36,645.45	32,019.63	49,560.30	49,561.00	52,040.00	54,642.00
AGENCY SERVICES	2,253,641.46	2,405,825.12	2,567,591.52	2,239,000.00	2,234,000.00	2,345,700.00	2,462,985.00
TRANSFERS RECOGNISED - OPERATIONAL	29,859,283.25	34,350,056.09	38,880,695.02	41,975,000.00	42,051,667.00	44,943,118.00	51,316,990.00
OTHER REVENUE	2,418,780.74	5,059,823.67	33,589,741.62	1,718,777.29	1,549,957.00	1,627,456.00	1,708,829.00
GAINS ON DISPOSAL OF PPE	2,451,875.45	-	-	3,200,000.00	683,295.00	717,460.00	753,333.00
TOTAL REVENUE (EXCLUDING CAPITAL SOURCE AND REVENUE FORGONE)	105,041,683.59	123,338,122.11	176,962,015.36	158,957,792.68	178,519,818.00	164,288,472.00	176,629,613.00
REVENUE FORGONE	-	-2,149,353.01	-1,883,407.91	-2,442,000.00	-2,442,000.00	-2,564,100.00	-2,692,305.00
TOTAL OPERATING REVENUE (EXCLUDING CAPITAL SOURCE)	105,041,683.59	121,188,769.10	175,078,607.45	156,515,792.68	176,077,818.00	161,724,372.00	173,937,308.00
TRANSFERS RECOGNISED - CAPITAL	7,761,547.21	7,988,125.07	15,070,746.31	16,322,000.00	16,322,000.00	17,242,000.00	18,213,000.00
TOTAL REVENUE	112,803,230.80	129,176,894.17	190,149,353.76	172,837,792.68	192,399,818.00	178,966,372.00	192,150,308.00



1.1 Property Rates

The adjustment to Property rates has been made with regards to the increase in the monthly billing for property rates to the value of R1 900 000 per month as new accounts are being billed, when then resulted to the increase of this original budget vote.

1.2 Service Charges

No adjustment has been made in terms of the service charges as the current monthly billing for service charges is constant and the mid-year report confirmed this as the budget performed at an average of 95%. Therefore no adjustment has been considered.

1.3 Rental Facilities and Equipment

The adjustment to Rental Facilities and Equipment has been made due to major factors which is the cash flow circumstances of the community. This decrease the leasing power of the community and therefore looking at trend analysis the adjustment has been considered to decrease the original budget.

1.4 Interest Earned

Emakhazeni is experiencing extreme cash flow constrains which leads to no cash being placed on short term investment account which can earn interest. Therefore looking at trend analysis the adjustment has considered to decrease the original budget.

1.5 Fines

Emakhazeni is one of the municipalities in Mpumalanga whom collection rate is good, but yet the anticipated revenue to be collected in terms of the budget seem not achievable once you look at trend analysis. It is therefore that adjustment has been made to decrease the original budget.

1.6 Licenses and Permits

No adjustment has been made in terms of Licenses & Permits as the original budget seems to be achievable.

1.7 Agency Services

The adjustment to Agency Services has been made to the value of R 5000.00. There reason for this was due to the original budget contain a anticipated revenue for Testing of vehicles, but as to date the testing station is not operating an therefore this revenue will not relise, which then required original budget to be decreased accordingly.

1.8 Transfers Recognised (Grants) – Operating

The adjustment to Transfers Recognised (Grants) – Operating has been made based on a subsidy(grant) which will be received from LGSETA for internship programs which did not exist in the original budget and therefore the adjustment is made to accommodate this revenue.

1.9 Other Revenue

The adjustment to Other Revenue has been made which consist of numerous votes and each vote has been individually assessed. Therefore look at trend analysis and current plans in place the original adjustment budget has been decreased.

1.10 Gains on Disposal of PPE

The adjustment to Gains on Disposal of PPE has been made due to the non-realizing of sale of property as anticipated in the original budget and the original budget focused on the revenue to be collected and not in term GRAP compliance as only the profit potion. It is therefore that the original budget has been decrease.

1.11 Transfers Recognised (Grants) – Capital

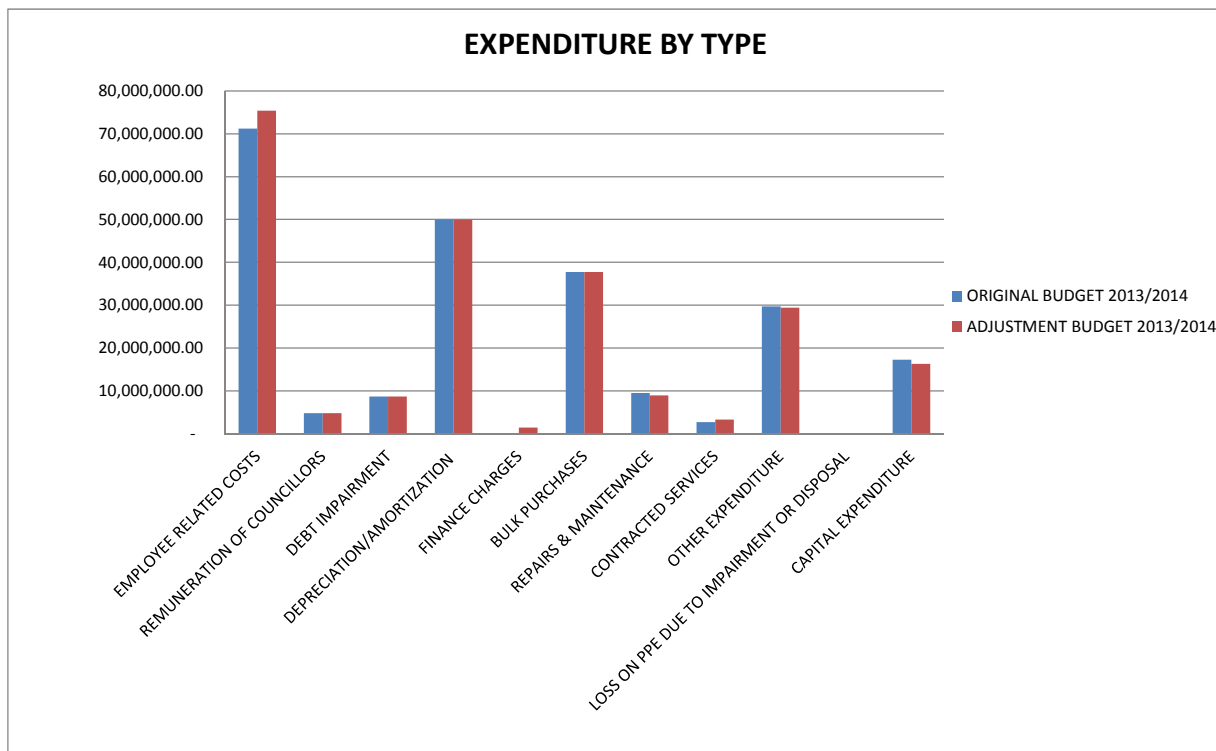
No adjustment has been made in terms of Transfers Recognised (Grants) - Capital as the budget is in respect of the gazette DORA.

The following table represents the summary approved annual budget and the amendments for the adjustment budget.

DESCRIPTION	ORIGINAL BUDGET 2013/2014		ADJUSTMENT BUDGET 2013/2014	
	BUDGET CR	%	BUDGET CR	%
PROPERTY RATES	32,933,922.00	21%	55,733,922.00	31%
PROPERTY RATES - PENALTIES & CHARGES	-	0%	-	0%
SERVICE CHARGES	70,285,525.08	44%	70,285,523.00	39%
PREPAID ELECTRICITY	19,427,137.21	12%	19,427,137.00	11%
SALE OF ELECTRICITY	16,692,000.00	11%	16,692,000.00	9%
BASIC ELECTRICITY	5,171,583.92	3%	5,171,583.00	3%
SALE OF WATER	6,523,484.43	4%	6,523,484.00	4%
BASIC WATER	6,659,762.46	4%	6,659,762.00	4%
REFUSE REMOVAL SERVICES	8,006,664.21	5%	8,006,664.00	4%
SEWERAGE SERVICES	7,804,892.85	5%	7,804,893.00	4%
RENTAL FACILITIES AND EQUIPMENT	573,943.11	0%	418,737.00	0%
INTEREST EARNED - EXTERNAL INVESTMENTS	381,011.40	0%	212,000.00	0%
INTEREST EARNED - OUTSTANDING DEBTORS	-	0%	-	0%
DIVIDENDS RECEIVED	-	0%	-	0%
FINES	5,601,053.50	4%	5,301,156.00	3%
LICENCES AND PERMITS	49,560.30	0%	49,561.00	0%
AGENCY SERVICES	2,239,000.00	1%	2,234,000.00	1%
TRANSFERS RECOGNISED - OPERATIONAL	41,975,000.00	26%	42,051,667.00	24%
EQUITABLE SHARE	36,151,000.00	23%	36,151,000.00	20%
EQUIT SHARE (COUNCIL SAL GRANT	2,384,000.00	1%	2,384,000.00	1%
GRANT: MSIG (INCOME)	890,000.00	1%	890,000.00	0%
GRANT: FINANCIAL MANAGEMENT	1,550,000.00	1%	1,550,000.00	1%
EPWP INCENTIVE GRANT	1,000,000.00	1%	1,000,000.00	1%
LGSETA INTERNSHIP SUBSIDY	-	0%	76,667.00	0%
OTHER REVENUE	1,718,777.29	1%	1,549,957.00	1%
GAINS ON DISPOSAL OF PPE	3,200,000.00	2%	683,295.00	0%
TOTAL REVENUE (EXCLUDING CAPITAL SOURCE AND REVENUE FORGONE)	158,957,792.68	100%	178,519,818.00	100%

2. Expenditure Adjustment per type:

DESCRIPTION	AUDIT OUTCOME 2010/2011	AUDIT OUTCOME 2011/2012	AUDIT OUTCOME 2012/2013	ORIGINAL BUDGET 2013/2014	ADJUSTMENT BUDGET 2013/2014	BUDGET FORECAST 2014/2015	BUDGET FORECAST 2015/2016
EMPLOYEE RELATED COSTS	53,602,441.75	51,282,114.51	59,406,044.65	71,191,521.48	75,394,923.00	79,242,702.00	83,049,283.00
REMUNERATION OF COUNCILLORS	3,447,288.25	4,256,472.61	4,484,763.94	4,753,851.00	4,787,546.00	5,026,923.00	5,278,269.00
DEBT IMPAIRMENT	59,887,391.85	8,110,426.12	-	8,670,000.00	8,670,000.00	9,103,500.00	9,558,675.00
DEPRECIATION/AMORTIZATION	2,750,111.73	48,036,809.37	45,060,185.88	49,980,000.00	49,980,000.00	52,479,000.00	55,102,950.00
FINANCE CHARGES	619,806.09	1,061,204.16	1,256,343.11	-	1,450,000.00	1,522,500.00	1,598,625.00
BULK PURCHASES	23,116,367.54	29,844,270.08	29,280,761.89	37,728,758.40	37,728,758.00	39,615,196.00	41,595,956.00
REPAIRS & MAINTENANCE	6,567,085.11	5,706,128.04	24,839,510.90	9,475,030.70	8,922,632.00	9,368,763.00	9,837,206.00
CONTRACTED SERVICES	2,567,278.92	2,150,475.51	2,701,958.55	2,716,765.92	3,316,766.00	3,482,604.00	3,656,734.00
OTHER EXPENDITURE	22,470,357.11	30,765,072.87	29,804,725.00	29,717,481.89	29,382,589.00	31,023,719.00	32,621,211.00
LOSS ON PPE DUE TO IMPAIRMENT OR DISPOSAL	160,390.82	-	-	-	-	-	-
TOTAL EXPENDITURE (EXCLUDING CAPITAL)	175,188,519.17	181,212,973.27	196,834,293.92	214,233,409.39	219,633,214.00	230,864,907.00	242,298,909.00
CAPITAL EXPENDITURE	368,810.81	-	-3.00	17,254,383.00	16,312,693.00	17,227,034.00	18,191,842.00
TOTAL EXPENDITURE	175,557,329.98	181,212,973.27	196,834,290.92	231,487,792.39	235,945,907.00	248,091,941.00	260,490,751.00



2.1 Employee related costs

The adjustments for Employee related cost has been due to increases issued by SALGA for Section 57 managers and accommodating the LGSETA internship expenditure. The original budget has therefore been increased.

2.2 Remuneration of Councillors

The adjustment for Remuneration of Councillors has been due to the upper limits increase. The original budget has therefore been increased.

2.3 Debt Impairment

No adjustment has been made in terms of Debt Impairment as the original budget seems in line with the anticipated expenditure that will be incurred.

2.4 Depreciation/Amortization

No adjustment has been made in terms of Depreciation/Amortization as the original budget seems in line with the anticipated expenditure that will be incurred.

2.5 Finance Charges

Emakhazeni is experiencing extreme cash flow constrains which leads to interest being paid to creditors. It is therefore that the adjustment has been made to original budget for the anticipated interest that will be incurred.

2.6 Bulk Purchases

No adjustment has been made in terms of Bulk Purchases as the original budget seems in line with the anticipated expenditure that will be incurred.

2.7 Repairs & Maintenance

Emakhazeni is experiencing extreme cash flow constrains which leads to minimization of expenditure. Therefore it led to the original budget to decrease to be in line with the anticipated expenditure to be incurred.

2.8 Contracted Services

The adjustment to Contracted Services has been made due to the fact that the municipality will enter in to contract with "Cash in Transit" company which is currently a security risk for the

banking of municipal revenue. Therefore the original budget has been increase to provide for such expenditure.

2.9 Other Expenditure

Emakhazeni is experiencing extreme cash flow constrains which leads to the municipality to put extreme pressure on minimization of expenditure.

Therefore the other expenditure has been reviewed individually and the major adjustments were fore the following items:

- The electricity reticulation cost for Madala/Paardeplaas led to increase of R 600,000.00
- The revenue enhancement cost to increase with R1,000,000.00
- The rental cost for vehicles to decrease with R 250,000.00
- The community participation cost to decrease with R 100,000.00
- The legal fees to decrease with R 300,000.00
- The fuel & oil cost to decrease with R 300,000.00
- The public entertainment cost to decrease with R 120,000.00

2.10 Loss on PPE due to impairment or disposal

No adjustment has been made in terms of Depreciation/Amortization as the original budget seems in line with the anticipated expenditure that will be incurred.

2.11 Capital Expenditure

- Internal capital
Emakhazeni is experiencing extreme cash flow constrains which leads to the municipality to put extreme pressure on minimization of expenditure. Therefore the original budget has been decrease.
- Grant capital (MIG)
No adjustment has been made in terms of Transfers Recognised (Grants) - Capital as the budget is in respect of the gazette DORA.

The following table represents the summary approved annual budget and the amendments for the adjustment budget.

DESCRIPTION	ORIGINAL BUDGET 2013/2014		ADJUSTMENT BUDGET 2013/2014	
	BUDGET DR	%	BUDGET DR	%
EMPLOYEE RELATED COSTS	71,191,521.48	31%	75,394,923.00	32%
REMUNERATION OF COUNCILLORS	4,753,851.00	2%	4,787,546.00	2%
DEBT IMPAIRMENT	8,670,000.00	4%	8,670,000.00	4%
DEPRECIATION/AMORTIZATION	49,980,000.00	22%	49,980,000.00	21%
FINANCE CHARGES	-	0%	1,450,000.00	1%
BULK PURCHASES	37,728,758.40	16%	37,728,758.00	16%
REPAIRS & MAINTENANCE	9,475,030.70	4%	8,922,632.00	4%
CONTRACTED SERVICES	2,716,765.92	1%	3,316,766.00	1%
OTHER EXPENDITURE	29,717,481.89	13%	29,382,589.00	12%
CHEMICALS	2,244,000.00	1%	2,444,000.00	1%
FUEL & OIL	3,423,543.30	1%	3,123,543.00	1%
AUDIT FEES	2,455,408.26	1%	2,455,408.00	1%
TELEPHONE	1,000,000.00	0%	1,000,000.00	0%
LEGAL FEES	1,852,563.78	1%	1,552,564.00	1%
LOSS ON PPE DUE TO IMPAIRMENT OR DISPOSAL	-	0%	-	0%
LOSS ON ASSET	-	0%	-	0%
TOTAL EXPENDITURE (EXCLUDING CAPITAL)	214,233,409.39	93%	219,633,214.00	93%
CAPITAL EXPENDITURE	17,254,383.00	7%	16,312,693.00	7%
MIG PROJECT EXPENSES	16,322,000.00	7%	15,505,900.00	7%
INTERNAL CAPITAL	907,383.00	0%	781,793.00	0%
INTANGIBLE ASSETS	25,000.00	0%	25,000.00	0%
TOTAL EXPENDITURE	231,487,792.39	100%	235,945,907.00	100%

Summary:

DESCRIPTION	AUDIT OUTCOME 2010/2011	AUDIT OUTCOME 2011/2012	AUDIT OUTCOME 2012/2013	ORIGINAL BUDGET 2013/2014	ADJUSTMENT BUDGET 2013/2014	BUDGET FORECAST 2014/2015	BUDGET FORECAST 2015/2016
REVENUE BY SOURCE							
PROPERTY RATES	16,162,067.84	20,438,543.25	31,358,480.12	32,933,922.00	55,733,922.00	34,580,618.00	36,309,649.00
PROPERTY RATES - PENALTIES & CHARGES	-	-	-	-	-	-	-
SERVICE CHARGES	47,717,090.48	55,030,971.61	64,057,587.51	70,285,525.08	70,285,523.00	73,793,592.00	77,483,272.00
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INTEREST EARNED - OUTSTANDING DEBTORS	-	-	-	-	-	-	-
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FINES	3,651,401.00	5,142,058.26	5,483,025.88	5,601,053.50	5,301,156.00	5,566,213.00	5,844,523.00
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TRANSFERS RECOGNISED - OPERATIONAL	29,859,283.25	34,350,056.09	38,880,695.02	41,975,000.00	42,051,667.00	44,943,118.00	51,316,990.00
OTHER REVENUE	2,418,780.74	5,059,823.67	33,589,741.62	1,718,777.29	1,549,957.00	1,627,456.00	1,708,829.00
GAINS ON DISPOSAL OF PPE	2,451,875.45	-	-	3,200,000.00	683,295.00	717,460.00	753,333.00
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TRANSFERS RECOGNISED - CAPITAL	7,761,547.21	7,988,125.07	15,070,746.31	16,322,000.00	16,322,000.00	17,242,000.00	18,213,000.00
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EXPENDITURE BY TYPE							
EMPLOYEE RELATED COSTS	53,602,441.75	51,282,114.51	59,406,044.65	71,191,521.48	75,394,923.00	79,242,702.00	83,049,283.00
REMUNERATION OF COUNCILLORS	3,447,288.25	4,256,472.61	4,484,763.94	4,753,851.00	4,787,546.00	5,026,923.00	5,278,269.00
DEBT IMPAIRMENT	59,887,391.85	8,110,426.12	-	8,670,000.00	8,670,000.00	9,103,500.00	9,558,675.00
DEPRECIATION/AMORTIZATION	2,750,111.73	48,036,809.37	45,060,185.88	49,980,000.00	49,980,000.00	52,479,000.00	55,102,950.00
FINANCE CHARGES	619,806.09	1,061,204.16	1,256,343.11	-	1,450,000.00	1,522,500.00	1,598,625.00
BULK PURCHASES	23,116,367.54	29,844,270.08	29,280,761.89	37,728,758.40	37,728,758.00	39,615,196.00	41,595,956.00
REPAIRS & MAINTENANCE	6,567,085.11	5,706,128.04	24,839,510.90	9,475,030.70	8,922,632.00	9,368,763.00	9,837,206.00
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LOSS ON PPE DUE TO IMPAIRMENT OR DISPOSAL	160,390.82	-	-	-	-	-	-
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CAPITAL EXPENDITURE	368,810.81	-	-3.00	17,254,383.00	16,312,693.00	17,227,034.00	18,191,842.00
TOTAL EXPENDITURE	175,557,329.98	181,212,973.27	196,834,290.92	231,487,792.39	235,945,907.00	248,091,941.00	260,490,751.00
(DEFICIT)/ SURPLUS	-62,754,099.18	-52,036,079.10	-6,684,937.16	-58,649,999.71	-43,546,089.00	-69,125,569.00	-68,340,443.00

It is important to note that the average payment level is 62 % in the mid-year budget and assessment report and this will result in a shortfall of revenue collected, which has been budgeted to the municipality's operations. Therefore tight measures need to be put in place to achieve the anticipated revenue.

Emakhazeni is still experiencing severe cash flow constraints which will require the municipality to continue to put extreme pressure on minimization of expenditure.

Due to accrual accounting the municipality is not in a favorable position to fund the non cash item in full and therefore the non cash items leads to a deficit in the budget.

These contribution non-cash items are:

- Depreciation/Amortization
- Rehabilitation of Landfill site
- Leave pay provision
- Long service awards
- Actuarial loss for employee benefits
- Medical retirement benefit

RECOMMENDATIONS BY ACTING CHIEF FINANCIAL OFFICER

1. **That**; the Committee note the changes made to the approved annual budget.
2. **That**; the new and vacant posts should not be filled during the next 4 months, except for most important vacant positions such as the Municipal Manager, Manager Technical services and Chief Financial Officer.
3. **That**; the committee considers the adjustment budget in terms of section 28 and 29 of the MFMA and Budget and Reporting Regulation.
4. **That**, the SDBIPS be reviewed to be aligned to the adjustment budget.
5. **That**, the SDBIPS which were aligned with the adjustment budget be approved.
6. **That**, the Municipal Manager submits the approved adjustment budget to National Treasury.

RECOMMENDATIONS BY ACTING CHIEF FINANCIAL OFFICER

1. **That**; the recommendations by the Acting Chief Financial Officer be accepted.